



March 13, 2015
Company Report
Rating: BUY
TP: HK\$ 4.6

H-Share price (HK\$) 3.58
Est. share price return 28.49%
Est. dividend yield 6.31%
Est. total return 34.8%

Previous Rating & TP BUY, HK\$4.0
Previous Report Date March 5, 2015

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Key Data

52Wk H/L (HK\$)	9.65/2.6
Issued shares (mn)	1,373
Market cap (HK\$m)	4,915
3-mth avg daily turnover (HK\$m)	23.7
Major shareholder(s) (%):	
Duke Online Holdings Limited	13.04

Source(s): Company, Bloomberg, ABCI Securities

FY14 Revenue breakdown (%)

Online game revenue, %	94.75
Joint operation revenue, %	3.95
Others, %	1.30
Sum	100.00

Source(s): Company, ABCI Securities

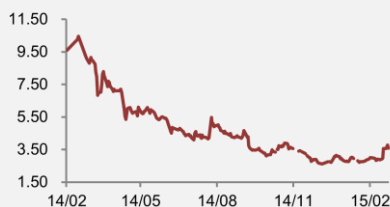
Share performance (%)

	Absolute	Relative*
1-mth	25.61	28.97
3-mth	23.45	20.85
6-mth	(16.36)	(13.34)

*Relative to HSI

Source(s): Bloomberg, ABCI Securities

1-Year stock performance (HK\$)



Source(s): Bloomberg, ABCI Securities

IGG Inc (8002 HK)

Key takeaways from non-deal roadshow

- Revenue contribution from mobile games increased to 85% in FY14 from 50% in FY13; in 4Q14, the figure was ~90% - the highest among its Hong Kong peers
- IGG expanded its local R&D and sales teams in various countries, paving way for growth in the global market
- The management revamped its strategy for its social app, LINK, by first attracting more new players for its mobile game products and gradually introducing LINK to these players
- A new game designed by the same R&D team of its current flagship game, Castle Clash, will be launched in mid-Apr
- The firm has kick-started its process to transfer listing to the Main Board. We expected its valuation to increase to its historical mean (~9.8xP/E) gradually. Reiterate **BUY** with TP of HK\$ 4.6, representing 9.8x FY15E forward P/E

Key takeaways from IGG's latest non-deal roadshow:

Image as a global mobile game player strengthens. Revenue from mobile games accounted for ~90% in 4Q14, up from 79% in 1Q14. As of latest, the Group had ~210mn accounts from more than 200 countries with over 20mn MAU. In 4Q14, its gross billing was among the top ten in 48 countries, which helped dilute the impacts of revenue and FX fluctuations in individual markets.

Enlarging local R&D and sales teams. The Group started its local team in 4 new countries (Canada, Thailand, Japan and Korea) where there are growing numbers of mobile gamers.

Dependence on flagship game reduces. Total revenue in 2014 grew 133% YoY; contribution from the top six highest-earning games is 86% in 4Q14 and 91% in FY14. Revenue of its flagship game, Castle Clash (CC), accounted for 58% of total revenue in 4Q14 and 62% in FY14. The Group will publish a new game designed by the same R&D team of CC in mid-Apr. For FY15, IGG plans to launch ~30 products.

LINK budget slashed. Management changed their strategy for its social app, LINK. Instead of allocating budget (original budget: ~US\$ 100mn) to directly promote LINK, the Group will switch its effort to attract more game players and then gradually introduce these players to the LINK community. We believe this strategy will reduce expenditure and boost revenue in the long run.

Procedure to transfer listing to the Main Board has been started. As such, we expect its valuation to rebound to its historical average level of ~9.8x FY15E P/E on solid business development and potential liquidity improvement. Maintain **BUY** and raise TP to HK\$ 4.6 based on FY15E forward P/E of 9.8x.

Risk Factors: 1) Inherent risk in mobile games sector; 2) Increasing competition and product homogenization; 3) Uncertain life cycle of products; 4) Legal risks; 5) Failure to transfer to Main Board may suppress share liquidity.

Results and Valuation

FY ended Dec 31	2012A	2013A	2014A	2015E	2016E
Turnover (US\$'000)	43,154	87,986	204,612	315,164	439,352
Chg (%.yoy)	39	104	133	54	39
Net Income (US\$'000)	(13,435)	6,948	66,373	82,950	122,264
Chg (%.YoY)	NA	NA	855	25	47
EPS (US\$)	0.00	0.01	0.04	0.06	0.09
Chg (%.YoY)	NA	NA	510	40	47
BVPS (US\$)	NA	0.10	0.14	0.20	0.27
Chg (%.yoy)	NA	NA	36	44	36
P/E (x)	-	-	10.65	7.62	5.17
P/B (x)	-	-	3.38	2.34	1.72
DPS, HKD	-	-	0.226	0.141	0.242
Yield (%)	NA	-	6.31	3.93	6.75
ROE (%)	NA	17.38	41.15	36.34	38.40
ROA (%)	NA	8.03	35.97	33.29	35.79

Source(s): Bloomberg, ABCI Securities estimates



Consolidated Income Statements (2012A-2016E)

FY ended Dec 31 (US\$'000)	2012A	2013A	2014A	2015E	2016E
Revenue	43,154	87,986	204,612	315,164	439,352
Online game revenue	41,810	85,251	193,859	302,558	412,991
Licensing revenue	548	234	-	-	-
Joint operation revenue	796	2,501	8,088	12,291	23,725
Other revenue	0	0	2,665	315	2,636
Cost of sales	(10,358)	(22,264)	(58,827)	(91,398)	(131,806)
Gross profit	32,796	65,722	145,785	223,766	307,546
Other income and gains	422	592	4,110	4,110	4,110
Selling and distribution expenses	(12,071)	(23,246)	(43,064)	(72,488)	(87,870)
Administrative expenses	(7,093)	(10,855)	(16,672)	(26,789)	(36,572)
Research and development costs	(6,331)	(9,333)	(17,202)	(26,789)	(37,141)
Other expenses	(20,669)	(14,619)	(1,342)	(1,843)	(2,725)
PROFIT/(LOSS) BEFORE TAX	(12,946)	8,261	71,615	99,968	147,348
Income tax expense	(163)	(1,313)	(5,223)	(16,995)	(25,049)
Profit/(loss) from continuing operations	(13,109)	6,948	66,392	82,973	122,299
Loss for the year from a discontinued operation	(326)	0	0	0	0
PROFIT/(LOSS) FOR THE YEAR	(13,435)	6,948	66,392	82,973	122,299
Attributable to: Owners of the parent	(13,435)	6,948	66,373	82,950	122,264
EPS (Basic), US\$	(0.0251)	0.0078	0.049	0.061	0.089
EPS(Diluted), US\$		0.0071	0.043	0.061	0.089
Dividend per share, HKD	0.000	0.016	0.226	0.141	0.242

Sources: Company, ABCI Securities estimates

Balance Sheet (2012A-2016E)

FY ended Dec 31 (US\$'000)	2012A	2013A	2014A	2015E	2016E
Property, plant and equipment	1,517	1,674	2,896	2,954	3,013
Other intangible assets	152	97	905	905	905
Non-current rental deposits	152	157	0	79	39
Deferred tax assets	365	435	9,939	68,166	64,692
Total non-current assets	2,186	2,363	13,740	72,103	68,649
Accounts receivable	496	314	2,375	2,391	4,217
Amount due from related party	0	114	0	204	142
Prepayments, deposits and other receivables	476	919	3,482	4,328	6,755
Funds receivable	3,233	12,248	16,889	23,637	32,951
Cash and cash equivalents	15,135	135,488	127,088	178,115	289,795
Other current assets	0	0	54,000	0	0
Current assets	19,340	149,083	203,834	208,675	333,861
Total assets	21,526	151,446	217,574	280,779	402,510
Accounts payable	1,841	3,228	7,572	5,400	6,486
Other payables and accruals	3,124	3,006	4,476	8,831	10,961
Deferred revenue	5,556	7,805	12,970	10,388	11,679
Other current liabilities	66,596	1,317	4,820	3,069	3,944
Total current liabilities	77,117	15,356	29,838	27,687	33,070
Deferred tax liabilities	250	317	457	387	350
Other non-current liabilities	0	0	0	0	0
Total non-current liabilities	250	317	457	387	350
Total Liabilities	77,367	15,673	30,295	28,074	33,420
EQUITY	(55,841)	135,773	187,279	252,705	369,090
Non-controlling interests	0	0	499	12,975	31,982
Equity of the firm	(55,841)	135,773	186,780	239,730	337,108
Book value/share, US\$	-	0.10	0.136	0.175	0.246

Sources: Company, ABCI Securities estimates



Consolidated Cash Flow Statements Forecast(2012A-2016E)

FY ended Dec 31 (US\$'000)	2012A	2013A	2014A	2015E	2016E
From continuing operations	(12,946)	8,261	71,615	99,968	147,348
From a discontinued operation	(326)	—	—	—	—
Interest income	(24)	(160)	(557)	(359)	(458)
Loss/(gain) on disposal of PP&E	(6)	10	3	7	5
Fair value loss of redeemable convertible preferred shares	20,612	14,167	—	0	0
Depreciation	1,014	754	1,025	1,046	1,066
Amortisation of other intangible assets	264	105	389	389	389
(Gain)Loss on sale of subsidiaries & associated co.	0	0	—	0	0
(Gain)Loss on disposal of a discontinued operation	405	—	—	0	0
Equity-settled share compensation costs	126	1,030	0	0	0
CASH FLOWS FROM OPERATING ACTIVITIES	9,119	24,167	71,545	101,050	148,350
	0	0	0	0	0
Increase in funds receivable	(883)	(9,015)	(4,641)	(6,748)	(9,314)
Decrease/(increase) in accounts receivable	(561)	68	(2,061)	(16)	(1,825)
Increase in prepayments, deposits & receivables	(392)	(443)	(2,563)	(846)	(2,427)
Increase in accounts payable	1,650	1,387	4,344	(2,172)	1,086
Increase in deferred revenue	265	2,249	5,165	(2,583)	1,291
Increase/(decrease) in other payables and accruals	689	(118)	1,470	4,355	2,130
Increase in non-current rental deposits	(152)	—	0	—	—
Cash flows generated from operations	9,735	18,295	71,526	93,040	139,291
Interest received	24	160	557	359	458
Income tax paid	(11)	3	(1,260)	(629)	(944)
Net cash flows from operating activities	9,748	18,458	70,823	92,770	138,804
CASH FLOWS FROM INVESTING ACTIVITIES					
Purchases of items of property, plant and equipment	(658)	(940)	(2,327)	(1,634)	(1,634)
Purchases of other intangible assets	(112)	(46)	(1,472)	(759)	(1,116)
Other investment activities	(93)	(9,967)	(49,349)	48	55
Net cash flows used in investing activities	(863)	(10,953)	(53,148)	(2,345)	(2,694)
Proceeds from exercise of share options	42	302	499	401	450
Dividends declared and paid	0	(4,923)	(4,300)	(39,800)	(24,885)
Other items from financing activities	0	107,477	(12,284)	0	0
Net cash flows from financing activities	42	102,856	(16,085)	(39,400)	(24,435)
NET INCREASE IN CASH AND CASH EQUIVALENTS	8,927	110,361	1,590	51,026	111,675
Cash and cash equivalents at beginning of year	6,248	15,135	125,488	127,088	178,115
Effect of foreign exchange rate changes, net	(40)	(8)	10	1	6
CASH AND CASH EQUIVALENTS AT END OF YEAR	15,135	125,488	127,088	178,115	289,795

Sources: Company, ABCI Securities estimates

Financial Ratios (%) (2012A-2016E)

FY ended Dec 31	2012A	2013A	2014A	2015E	2016E
Gross profit margin	76.00	74.70	71.25	71.00	70.00
EBT margin	NA	9.39	35.00	31.72	33.54
Net profit margin	NA	7.90	32.44	26.32	27.83
ROAA	NA	8.03	35.97	33.29	35.79
ROAE	NA	17.38	41.15	38.90	42.39

Sources: Company, ABCI Securities estimates

Disclosures

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return - 6% \leq Stock return < Market return rate
Sell	Stock return < Market return - 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2010-2014

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq$ 180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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